

Ann M. Menke

Certified Public Accountant
A Professional Corporation

CITY OF NORTH ENGLISH

INDEPENDENT AUDITOR'S REPORTS BASIC FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION SCHEDULE OF FINDINGS

JUNE 30, 2008

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City of North English

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Daniel Strohman	Mayor	January 1, 2010
Doug deRegnier	Council Member	January 1, 2010
Scott Romine	Council Member	January 1, 2010
Wendell Marsh	Council Member	January 1, 2012
Carl Miller	Council Member	January 1, 2012
Jennifer Rugg	Council Member	January 1, 2012
Kathy S. O'Rourke	City Clerk	Indefinite
Kandyce Smolik	City Attorney	Indefinite

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CITY OF NORTH ENGLISH

Ann M. Menke

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
North English, Iowa

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of North English, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of North English's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, I was unable to satisfy myself as to the distribution by fund of the total fund balance at July 1, 2007.

In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had I been able to verify the distribution by fund of the total fund balance at July 1, 2007, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of North English as of June 30, 2008, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

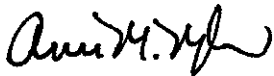
In accordance with Government Auditing Standards, I have also issued my report dated February 16, 2009 on my consideration of the City of North English's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Budgetary comparison information on page 19 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

The City of North English, Iowa has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of North English's basic financial statements. Other supplementary information included in Schedules 1 through 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Sincerely,



Ann M. Menke
Certified Public Accountant
Professional Corporation
February 16, 2009

Ann M. Menke

**Certified Public Accountant
A Professional Corporation**

BASIC FINANCIAL STATEMENTS

City of North English
Statement of Activities and Net Assets - Cash Basis
For the Year Ended June 30, 2007

		Program Receipts		
		Charges for	Operating Grants	Capital Grants
	Disbursements	Service	Contributions and Restricted Interest	Contributions and Restricted Interest
Functions / Programs:				
Governmental activities:				
Public safety	\$ 94,245	\$ 9,929	\$ -	\$ -
Public works	149,142	72,238	84,901	-
Health and social services	500	-	-	-
Culture and recreation	70,010	18,915	-	-
Community and economic development	1,994	-	-	-
General government	59,431	-	-	-
Debt service	60,130	-	-	-
Total governmental activities	<u>435,452</u>	<u>101,082</u>	<u>84,901</u>	<u>-</u>
Business type activities				
Water	154,083	204,940	-	-
Sewer	119,583	98,144	-	-
Total business type activities	<u>273,666</u>	<u>303,084</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 709,118</u>	<u>\$ 404,166</u>	<u>\$ 84,901</u>	<u>\$ -</u>
General Receipts:				
Property tax levied for:				
General purposes				
Local option sales tax				
Cable TV franchise tax				
Utility tax replacement tax				
Grants and contributions not restricted to specific purpose				
Unrestricted interest on investments				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Unrestricted				
Total cash basis net assets				

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
\$ (84,316)	\$ -	\$ (84,316)
7,997	-	7,997
(500)	-	(500)
(51,095)	-	(51,095)
(1,994)	-	(1,994)
(59,431)	-	(59,431)
(60,130)	(21,979)	(82,109)
(249,469)	(21,979)	(271,448)
-	50,857	50,857
-	(21,439)	(21,439)
-	29,418	29,418
(249,469)	7,439	(242,030)
131,910	-	131,910
111,470	-	111,470
2,800	-	2,800
4,011	-	4,011
13,972	-	-
4,986	-	4,986
455	-	455
4,807	(4,807)	-
274,411	(4,807)	255,632
24,942	2,632	27,574
176,776	23,929	200,705
\$ 201,718	\$ 26,561	\$ 228,279
201,718	26,561	228,279
\$ 201,718	\$ 26,561	\$ 228,279

See notes to financial statements.

City of North English
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds
As of and for the Year Ended June 30, 2008

	General	Special Revenue		Debt Service	Total
		Road Use Tax	Local Options Sales Tax		
Receipts:					
Property tax	\$ 131,910	\$ -	\$ -	\$ -	\$ 131,910
Other city taxes	6,811	-	111,470	-	118,281
Licenses and permits	1,233	-	-	-	1,233
Use of money and property	4,986	-	-	-	4,986
Intergovernmental	37,854	84,901	-	-	122,755
Charges for services	71,005	-	-	-	71,005
Miscellaneous	5,417	-	-	-	5,417
Total receipts	<u>259,216</u>	<u>84,901</u>	<u>111,470</u>	<u>-</u>	<u>455,587</u>
Disbursements:					
Operating:					
Public safety	94,245	-	-	-	94,245
Public works	60,079	89,063	-	-	149,142
Health and social services	500	-	-	-	500
Culture and recreation	70,010	-	-	-	70,010
Community and economic development	1,994	-	-	-	1,994
General government	59,431	-	-	-	59,431
Debt service	-	-	-	60,130	60,130
Total disbursements	<u>286,259</u>	<u>89,063</u>	<u>-</u>	<u>60,130</u>	<u>435,452</u>
(Deficiency) excess of receipts					
(Under) over disbursements	(27,043)	(4,162)	111,470	(60,130)	20,135
Other financing sources (uses)					
Proceeds of long-term debt	-	-	-	-	-
Operating transfers in	7,350	20,000	-	60,130	87,480
Operating transfers out	(11,953)	-	(70,720)	-	(82,673)
Total other financing sources	<u>(4,603)</u>	<u>20,000</u>	<u>(70,720)</u>	<u>60,130</u>	<u>4,807</u>
Net change in cash balances	(31,646)	15,838	40,750	-	24,942
Cash balances beginning of year	102,871	26,166	47,739	-	176,776
Cash balances end of year	<u>\$ 71,225</u>	<u>\$ 42,004</u>	<u>\$ 88,489</u>	<u>\$ -</u>	<u>\$ 201,718</u>
Cash Basis Fund Balances					
Unreserved:					
General fund	\$ 71,225	\$ -	\$ -	\$ -	\$ 71,225
Special revenue fund	-	42,004	88,489	-	130,493
Debt service fund	-	-	-	-	-
Total cash basis fund balances	<u>\$ 71,225</u>	<u>\$ 42,004</u>	<u>\$ 88,489</u>	<u>\$ -</u>	<u>\$ 201,718</u>

See notes to financial statements.

City of North English
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds
As of and for the Year Ended June 30, 2008

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for services	\$ 204,940	\$ 98,144	\$ 303,084
Total receipts	<u>204,940</u>	<u>98,144</u>	<u>303,084</u>
Operating disbursements:			
Debt service	21,979	-	21,979
Business type activities	154,083	119,583	273,666
Total operating disbursements	<u>176,062</u>	<u>119,583</u>	<u>295,645</u>
Excess (deficiency) of operating receipts (under) over operating disbursements.	28,878	(21,439)	7,439
Other financing sources (uses)			
Operating transfers in	20,000	23,370	43,370
Operating transfers out	(48,177)	-	(48,177)
Net non-operating receipts (disbursements)	<u>(28,177)</u>	<u>23,370</u>	<u>(4,807)</u>
Net change in cash balances	701	1,931	2,632
Cash balances beginning of year	10,309	13,620	23,929
Cash balances end of year	<u>\$ 11,010</u>	<u>\$ 15,551</u>	<u>\$ 26,561</u>
Cash Basis Fund Balances			
Unreserved	11,010	15,551	\$ 26,561
Total cash basis fund balances	<u>\$ 11,010</u>	<u>\$ 15,551</u>	<u>\$ 26,561</u>

See notes to financial statements.

City of North English
Notes to Financial Statements
For the Year Ended June 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of North English is a political subdivision of the State of Iowa located in Iowa and Keokuk Counties. It was first incorporated in 1891 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water, sewer, and solid waste utilities for its citizens. The population of North English was 991 according to the 2000 census.

A. Reporting Entity

For financial reporting purposes, the City of North English has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific burdens on the City. The City of North English has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: English Valley Community Park, North English Co-op Telephone Board and North English Benefit Fire District.

B. Basis of Presentation

Government-wide Financial Statement – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

City of North English
Notes to Financial Statements
For the Year Ended June 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation (Continued)

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental and enterprise funds are aggregated and reported as nonmajor governmental or proprietary funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges, and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Local Options Sales Tax Fund is used to account for the proceeds of local option sales tax.

The Debt Service Fund is utilized to account for the payment of interest and principal on the city's general long-term debt.

City of North English
Notes to Financial Statements
For the Year Ended June 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation (Continued)

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of North English maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in the debt service function.

NOTE 2 – CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2008 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

City of North English
Notes to Financial Statements
For the Year Ended June 30, 2008

NOTE 2 – CASH AND POOLED INVESTMENTS (Continued)

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district. The city did not have any funds invested in a security considered to be an investment by the Code of Iowa as of June 30, 2008.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

NOTE 3– BONDS AND NOTES PAYABLE

Annual debt service requirements to maturity for the general obligation bonds, revenue bonds, bank notes and capital leases are as follows:

Year Ending June 30,	General Obligation Bonds		Revenue Bonds		Bank Note		Capital Lease		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2009	5,000	6,353	34,000	14,105	20,000	952	15,161	4,280	74,161	25,690
2010	5,000	6,153	35,000	13,000	0	0	15,934	3,507	55,934	22,660
2011	5,000	5,953	36,000	11,863	0	0	16,746	2,694	57,746	20,510
2012	5,000	5,753	37,000	10,693	0	0	17,600	1,841	59,600	18,287
2013	5,000	5,548	38,000	9,490	0	0	18,498	943	61,498	15,981
2014-2018	45,000	23,188	208,000	28,177	0	0	0	0	253,000	51,365
2019-2023	50,000	11,952	46,000	1,495	0	0	0	0	96,000	13,447
2024-2025	20,000	1,456	0	0	0	0	0	0	20,000	1,456
Total	<u>\$ 140,000</u>	<u>\$ 66,356</u>	<u>\$ 434,000</u>	<u>\$ 88,823</u>	<u>\$ 20,000</u>	<u>\$ 952</u>	<u>\$ 83,939</u>	<u>\$ 13,265</u>	<u>\$677,939</u>	<u>\$ 169,396</u>

The Code of Iowa requires principal and interest on general obligation bonds be paid from the Debt Service Fund.

The resolutions providing for the issuance of the revenue notes and bonds require that the notes and bonds will only be redeemed from the future earnings of the enterprise activity and the note and bond holders hold a lien on the future earnings of the funds.

City of North English
Notes to Financial Statements
For the Year Ended June 30, 2008

NOTE 4 – CAPITAL LEASE PURCHASE AGREEMENT

In October 10, 2007 the City entered into a capital lease-purchase agreement with Kansas State Bank of Manhattan to purchase a street sweeper totaling \$83,939. The lease is payable over five years at an interest rate of 5.099%. The following is a schedule of the future minimum lease payments, including interest per annum and the present value of the future minimum lease payments, including interest per annum, and the present value of net minimum lease payments under the agreement in effect at June 30, 2008.

Year Ending June 30,	
2009	\$ 19,441
2010	19,441
2011	19,441
2012	19,441
2013	<u>19,440</u>
Total minimum lease payments	\$ 97,204
Less amount representing interest	<u>-13,265</u>
Present value of net minimum lease payments	<u>\$ 83,939</u>

NOTE 5 – PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 3.9% of their annual covered salary and the City is required to contribute 6.05% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2008 was \$7,540, equal to the required contribution for the year.

City of North English
Notes to Financial Statements
For the Year Ended June 30, 2008

NOTE 6 – COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use. Vacation benefits are paid upon termination, retirement, or death. Sick leave benefits are not paid upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave payments payable to employees at June 30, 2007, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Sick leave	<u>\$ 951</u>
Total	<u>\$ 951</u>

This liability has been computed based on rates of pay in effect at June 30, 2008.

NOTE 7 – RISK MANAGEMENT

The City of North English is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 8 – INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

Transfer to	Transfer from	Amount
General	Local Options Sales Tax	\$ 7,350
Road Use Tax	Local Options Sales Tax	20,000
Water	Local Options Sales Tax	20,000
Sewer	Local Options Sales Tax	23,370
Debt Service	General	11,953
Debt Service	Water	<u>48,177</u>
Total		<u>\$ 130,850</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

NOTE 9 – SERVICE AGREEMENTS

The City of North English has an agreement with Iowa County to provide police protection for its citizens. The City paid \$81,966 under this agreement during the year ended June 30, 2008.

City of North English
Notes to Financial Statements
For the Year Ended June 30, 2008

NOTE 10 – SUBSEQUENT EVENTS

In August 2008, the City of North English approved borrowing up to \$950,000 from the State Revolving Fund Loan Program for a water main project.

In September 2008, Richard Henson was appointed as mayor to complete the term vacated by Dan Strohman.

Ann M. Menke

Certified Public Accountant
A Professional Corporation

REQUIRED SUPPLEMENTARY INFORMATION

City of North English
Budgetary Comparison Schedule
of Receipts, Disbursements and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
Required Supplementary Information
Year Ended June 30, 2008

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts			
Property tax	\$ 131,910	\$ -	\$ 131,910
Other city taxes	118,281	-	118,281
Licenses and permits	1,233	-	1,233
Use of money and property	4,986	-	4,986
Intergovernmental	122,755	-	122,755
Charges for services	71,005	303,084	374,089
Miscellaneous	5,417	-	5,417
Total receipts	<u>455,587</u>	<u>303,084</u>	<u>758,671</u>
Disbursements			
Public safety	94,245	-	94,245
Public works	149,142	-	149,142
Health and social services	500	-	500
Culture and recreation	70,010	-	70,010
Community and economic development	1,994	-	1,994
General government	59,431	-	59,431
Debt service	60,130	21,979	82,109
Business type activities	-	273,666	273,666
Total disbursements	<u>435,452</u>	<u>295,645</u>	<u>731,097</u>
Excess of receipts over disbursements	20,135	7,439	27,574
Other financing sources, net	4,807	(4,807)	-
Excess of receipts and other financing sources over disbursements and other financing uses	24,942	2,632	27,574
Balance, beginning of year	176,776	23,929	200,705
Balance, end of year	<u>\$ 201,718</u>	<u>\$ 26,561</u>	<u>\$ 228,279</u>

Budgeted Amounts		Final to Total Variance
Original	Final	
\$ 130,904	\$ 130,904	\$ 1,006
93,973	98,973	19,308
1,000	1,000	233
1,500	1,500	3,486
105,443	119,415	3,340
347,060	367,060	7,029
5,000	5,000	417
<u>684,880</u>	<u>723,852</u>	<u>34,819</u>
92,216	94,475	230
142,000	154,500	5,358
500	500	-
64,866	74,000	3,990
-	2,000	6
74,200	74,200	14,769
11,953	-	(82,109)
285,182	366,000	92,334
<u>670,917</u>	<u>765,675</u>	<u>34,578</u>
13,963	(41,823)	69,397
-	-	-
13,963	(41,823)	69,397
208,267	199,062	1,643
<u>\$ 222,230</u>	<u>\$ 157,239</u>	<u>\$ 71,040</u>

See accompanying independent auditor's report.

City of North English
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2008

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Fund, and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$94,758. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in the debt service function.

Ann M. Menke

Certified Public Accountant
A Professional Corporation

OTHER SUPPLEMENTARY INFORMATION

City of North English
Schedule of Indebtedness
For the Year Ended June 30, 2008

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General Obligation Notes:			
Fire Truck	August 1, 2005	4.- 4.875%	155,000
Bank Note:			
Water Softener	April 25, 2007	4.76%	40,000
Capital Lease:			
Street Sweeper	October 10, 2007	5.00%	-
Revenue Bond:			
Water Tower	June 17, 2003	3.00%	590,000
Total			

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
145,000	-	5,000	140,000	6,953
40,000	-	20,000	20,000	1,979
-	83,939	-	83,939	-
467,000	-	33,000	434,000	15,178
<u>\$ 652,000</u>	<u>\$ 83,939</u>	<u>\$ 58,000</u>	<u>\$ 677,939</u>	<u>\$ 24,110</u>

See accompanying independent auditor's report.

**City of North English
Bond and Note Maturities
For the Year Ended June 30, 2008**

Year Ending June 30,	General Obligation Notes		Bank Note		Capital Lease	
	Fire Truck		Water Softener		Street Sweeper	
	Issued Aug 1, 2005		Issued April 25, 2007		Issued Oct 10, 2007	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2009	4.00%	5,000	4.76%	20,000	5.00%	15,161
2010	4.00%	5,000	-	-	5.00%	15,934
2011	4.00%	5,000	-	-	5.00%	16,746
2012	4.10%	5,000	-	-	5.00%	17,600
2013	4.20%	5,000	-	-	5.00%	18,498
2014	4.25%	5,000	-	-	-	-
2015	4.30%	10,000	-	-	-	-
2016	4.50%	10,000	-	-	-	-
2017	4.60%	10,000	-	-	-	-
2018	4.625%	10,000	-	-	-	-
2019	4.625%	10,000	-	-	-	-
2020	4.625%	10,000	-	-	-	-
2021-2025	4.75-4.875%	50,000	-	-	-	-
Total		<u>\$ 140,000</u>		<u>\$ 20,000</u>		<u>\$ 83,939</u>

Year Ending June 30,	Revenue Bonds	
	Water Tower	
	Issued June 17, 2003	
	Interest Rates	Amount
2009	3.00%	34,000
2010	3.00%	35,000
2011	3.00%	36,000
2012	3.00%	37,000
2013	3.00%	38,000
2014	3.00%	39,000
2015	3.00%	40,000
2016	3.00%	42,000
2017	3.00%	43,000
2018	3.00%	44,000
2019	3.00%	46,000
Total		<u>\$ 434,000</u>

See accompanying independent auditor's report.

Ann M. Menke

Certified Public Accountant
A Professional Corporation

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards

To the Honorable Mayor and
Members of the City Council
North English, Iowa

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of North English, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents and have issued my report thereon dated February 16, 2008. My report expressed qualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting since I was unable to satisfy myself as to the distribution by fund of the total fund balance at July 1, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of North English's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing my opinion on the effectiveness of the City of North English's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City of North English's internal control over financial reporting.

My consideration of internal controls over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies and other deficiencies I consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of North English's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of North English's financial statements that is more than inconsequential will not be prevented or detected by the City of North English's internal control. I consider the deficiencies in internal control described in Part I of the

accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of North English's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, I believe items 2008-I-A, 2008-I-B, and 2008-I-C are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of North English's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters that are described in the accompanying Schedule of Findings.

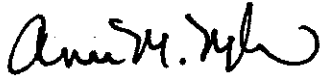
Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of North English's responses to findings identified in my audit are described in the accompanying Schedule of Findings. While I have expressed my conclusions on the City's responses, I did not audit the City of North English's responses and, accordingly, I express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of the City of North English and other parties to whom the City of North English may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the City of North English during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to read "Ann M. Menke", with a stylized flourish at the end.

Ann M. Menke
Certified Public Accountant
February 16, 2009

**City of North English
Schedule of Findings
For the Year Ended June 30, 2008**

Part I: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

2008-I-A

Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. One person has control over each of the following areas for the City:

1. Accounting system – performing all general accounting functions and custody of assets.
2. Cash – preparing bank account reconciliations, initiating cash receipts and disbursement functions and handling and recording cash.
3. Investments – detailed record keeping, custody of investments and reconciling earnings.
4. Long term debt – recording and reconciling.
5. Receipts – collecting, depositing, journalizing, reconciling, and posting.
6. Utility receipts – billing, collecting, depositing, and posting.
7. Disbursements – check writing, reconciling, and posting.
8. Payroll – preparation, distribution, and posting.
9. Financial reporting – preparing, reconciling, and distributing.

Recommendation – I realize that with a limited number of office employees, segregation of duties is difficult. However, the City should continue to review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel. Evidence of independent reviews should be indicated by initials of the independent reviewer.

Response – We will consider this.

Conclusion – Response accepted.

2008-I-B

Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled throughout the year. Also, utility collections were not reconciled to deposits.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period and to reconcile collections to deposits. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

Response – These procedures will be implemented as recommended.

Conclusion – Response accepted.

**City of North English
Schedule of Findings
For the Year Ended June 30, 2008**

Part I: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES: (Continued)

2008-I-C

Written Accounting Procedures Manual – I encourage the development of an office procedures and standardized accounting manual for the City's financial accounting system. This written manual should provide the following benefits:

1. Help in achieving uniformity in accounting and application of written policies and procedures.
2. Save supervisory time by recording decisions so that they will not have to be made each time the same or similar situation arises.
3. Aid in training additional or replacement personnel.

Recommendation – A written office procedures and standardized accounting manual should be prepared.

Response – A written office procedures and standardized accounting manual is in the process of being developed and implemented to increase effectiveness and efficiency.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Part II: Other Findings Related to Statutory Reporting:

2008-II-A

Certified Budget – Disbursements during the year ended June 30, 2008, exceeded the amounts budgeted in the Debt Service function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in accordance with Chapter 384.20 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

**City of North English
Schedule of Findings
For the Year Ended June 30, 2008**

Part II: Other Findings Related to Statutory Reporting: (Continued)

2008-II-B

Questionable Disbursements – No expenditures for parties, banquets, or other entertainment for employees were noted that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

2008-II-C

Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

2008-II-D

Business Transactions – No business transactions between the City and City officials or employees were noted.

2008-II-E

Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

2008-II-F

Council Meetings – No transactions were found that I believe should have been approved in the Council minutes but were not.

Although minutes of Council proceedings were published, they were not published as required by Chapter 372.13(6) of the Code of Iowa. The published minutes did not include a summary of receipts.

Recommendation – The city should publish minutes as required by the Code of Iowa.

Response – We will publish minutes as required.

Conclusion – Response accepted.

2008-II-G

Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

2008-II-H

Revenue Bonds/Notes – The City is in compliance with all requirements of the revenue bond and note resolutions.

**City of North English
Schedule of Findings
For the Year Ended June 30, 2008**

Part IV Other Findings Related to Statutory Reporting: (Continued)

2008-II-I

Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation – The City should obtain and retain an image of both the front and back of each cancelled check as required.

Response – We will contact our banks about printing both sides of the checks from now on.

Conclusion – Response accepted.

2008-II-J

City Code of Ordinances – The City has not compiled the City ordinances within the past five years.

Recommendation – Chapter 380.8 of the Code of Iowa states in part, “At least once every five years, a City shall compile a code of ordinances containing all City ordinances in effect, except grade ordinances, bond ordinances, zoning ordinances, and ordinances vacating streets and alleys.” The City should compile the City ordinances as required.

Response – We will update the City Code of Ordinances as required by the Code of Iowa.

Conclusion – Response accepted.

2008-II-K

Payroll – The City pays the utility bills for City employees.

Recommendation – Any compensation for City employees should be made subject to payroll regulations.

Response – We will contact our software service about establishing this in our payroll computations.

Conclusion – Response accepted.

**City of North English
Schedule of Findings
For the Year Ended June 30, 2008**

Part IV Other Findings Related to Statutory Reporting: (Continued)

2008-II-L

Disbursements – The City only uses one signature on checks.

Recommendation – To strengthen internal control, checks should be signed by one person and then supporting vouchers and invoices should be made available along with the check to the second or independent person for review and countersignature.

Response – We will look for ways to comply.

Conclusion – Response accepted.

City of North English

Audit Staff

The audit was performed by:

Ann M. Menke, CPA

Carol Ross, CPA

Betty Thomas, CPA

Kristy Adams, Staff Auditor

